

II. INTRODUCTION

A. PURPOSE

VWB Research was retained by the Michigan State Housing Development Authority (MSHDA), under Contract No. 06-06, to conduct a detailed study of modern/modernized, multi-unit, downtown housing in 17 major Michigan cities (excluding Detroit). Owned and leased multi-unit downtown housing is emerging as a viable choice for residents of Michigan's larger cities, and MSHDA has an interest and an investment in its continued growth and success. Michigan downtowns, like downtowns across the nation, must retain and attract permanent residents if they hope to revitalize and prosper. Towards that end, this study intends to:

- Document the amount, type, and condition of current multi-unit downtown housing that meets the study's criteria.
- Assess the quality and performance of current multi-unit downtown housing that meets the study's criteria.
- Analyze demographic data for downtown housing and households trends.
- Establish downtown resident profiles and their resulting market sizes.
- Devise and pre-test a methodology that evaluates the desirability and market strength of Michigan downtowns, and predicts success probabilities (method will not address site-specific cases, which is beyond the scope of this study).
- Secure resident, developer, and city attitudes and opinions about multi-unit downtown living (both environmental and housing attributes).
- Determine potential multi-unit downtown housing opportunities.
- Recommend strategies for improving and increasing Michigan downtown living.

With the state of Michigan facing important resource allocation decisions, this study can provide clarity and focus on the issues of downtown living. Study results can help MSHDA target its valuable resources effectively and productively in Michigan downtowns. People are the life-blood of downtowns. Housing is the only way to capture them on a permanent basis. This study will try to understand the issues of downtown resident retention and attraction. In turn, these issues will reveal the qualities of desirable downtown living and the strength of housing markets for MSHDA, developers, and cities.

B. METHODOLOGIES

The following methods were used by VWB Research to collect and analyze data for this study:

City Selections

The focus of this study is on the major cities of Michigan, outside of the Detroit metropolitan area. Since Detroit has been the subject of other downtown housing assessments and is unique unto itself within Michigan, it was excluded here. The criteria used in selecting the final study cities include: (1) a citywide population of 30,000 or more, (2) a discernable, traditional downtown area, and (3) no suburban communities of larger cities. The 17 cities chosen by MSHDA for this study are:

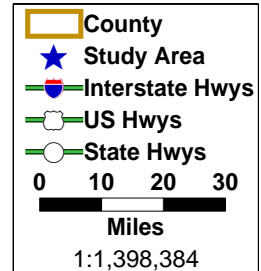
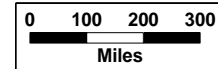
- ANN ARBOR
- BATTLE CREEK
- BAY CITY
- EAST LANSING
- FERNDALE
- FLINT
- GRAND RAPIDS
- HOLLAND
- JACKSON
- KALAMAZOO
- LANSING
- MIDLAND
- MUSKEGON
- PONTIAC
- PORT HURON
- SAGINAW
- CANTON TOWNSHIP

Although Ferndale (a suburban Detroit community under 30,000 population) and Canton Township (a suburban Detroit community with no traditional downtown) do not meet the selection criteria, MSHDA requested their inclusion due to active housing markets. A map indicating the location of each city in the study follows this page.

Downtown Study Area Delineations

With the 17 cities selected, Downtown Study Areas (DSAs) were delineated. In order to collect data, geographic zones with definitive boundaries had to be established. To set the boundaries of each DSA, a driving tour of the inner city was performed and local city officials were consulted. The four factors that most influenced the final delineations were: (1) exclusion of single-family neighborhoods, (2) inclusion of the Central Business District, (3) general adherence to downtown development authority boundaries, and (4) recognition of significant natural and man-made barriers. MSHDA approved all final DSA delineations. Each city has one downtown study area, except for Saginaw, which has two. The selected study area for Canton Township was Cherry Hill Village (a planned, new-town development), since the Township does not have a traditional downtown. There are 18 DSAs in 17 cities within this study. Maps showing individual DSA boundaries are provided in Section VI of this study.

Michigan Study Areas



Housing Product Definition

With the 18 DSAs delineated, the housing product was operationally defined. *Multi-unit downtown housing* in this study is defined as any predominately residential property with four or more dwelling units on one DSA site that was built or substantially renovated since 1970. Occupants are ambulatory, living independently, and paying 100% of their housing costs (no subsidies). Dwelling units are rented or owned. Assisted-living facilities, nursing homes, housing built exclusively for students, group homes, prisons, special needs housing, duplexes, triplexes, single-family homes, and subsidized housing are excluded (non-subsidized Low-Income Housing Tax Credit properties are included). See *Section D: Terminology* below for a further definition of subsidized housing.

Demographics

Demographic data for population, households, housing, crime, transit, and employment was secured from Claritas, Inc., the 1990 and 2000 United States Census, Applied Geographic Solutions, U.S. Department of Commerce, Department of Labor, Department of Housing and Urban Development, Bureau of Labor Statistics, and HISTA by Ribbon Demographics. This data has been used in its primary form and by VWB Research for secondary calculations. All sources are referenced at the bottom of tables where data appears. Demographic data for 2007 and beyond is estimated and projected by Claritas, Inc. For an understanding of the methodologies employed by Claritas, Inc., see Addendum F in Volume 1 or Addendum B in Volume 2 of this study.

Housing Supply Field Documentation

Between June 1, 2007 and August 31, 2007, field research and documentation activities were performed in the 18 delineated DSAs. Field analysts from VWB Research visited each city, and inventoried (in-person and by phone) all multi-unit downtown housing properties that met the housing product definition. “For rent” properties included low-income housing tax credit and market-rate units, while “for-sale” properties included just condominiums. Subsidized housing of any kind was excluded. The resulting housing supply data for individual DSAs is presented and analyzed in Section VI, while aggregated data for all DSAs is presented and analyzed in Section III of the study.

Although a variety of sources were used, the properties documented for this report were primarily identified through the Michigan State Housing Development Authority (MSHDA), county and city tax assessors, city officials (i.e. planning, zoning, and building departments), Downtown Development Authority staff, realtors/real estate agents, real estate publications, and Internet sources. Specific data collected on each property includes:

1. Property Information: Name, address, total units, and stories
2. Owner/Developer: Name and telephone number.
3. Property Manager: Name and telephone number.
4. Parking: Total spaces and type.
5. Available Amenities/Features: Both in unit and within project.
6. Years Built and Renovated (if applicable)
7. Vacancy and Sales Rates
8. Distribution of Units by Bedroom Type
9. Square Feet by Bedroom Type
10. Net Rents and Sale Prices by Bedroom Type
11. Elevator Service
12. Property Type
13. Quality Ratings * (see below)
14. Pictures and GPS Locations
15. Sales Information: First and last sales dates and unsold units
16. Condominium Fees and Services
17. Building Type: New or renovated

* The quality ratings used in this study were established after a careful examination of the housing properties and their surrounding neighborhoods. Factors influencing the ratings include curb appeal, unit and property amenities, age, interior and exterior building condition, parking arrangements, architectural design, landscaping and grounds, management presence, access, visibility, signage, public infrastructure, condition of adjacent properties, neighborhood interviews, and area community services. The rating scale used is as follows:

A = Excellent / B = Good / C = Average / D = Fair / E = Poor

Attitudinal Surveys

To gain perspective on the three major players driving downtown multi-unit housing, we administered surveys to city officials, developers/owners, and residents. The surveys and their results are discussed in Section III-C. Samples of the survey instruments appear in Addenda B through E of Volume 1 of this study.

For city officials, a 25-question hard-copy survey was sent to the “downtown housing expert” in 16 of the 17 DSA cities (Canton Township was excluded). This individual was typically the city’s director of planning and community development or executive director of the downtown development authority. A completed survey was received back from every DSA city, thus, providing 100% coverage. The average number of downtown experience years per respondent was 11.8.

For developers/owners, a 27-question hard-copy survey was sent to developers and owners of multi-unit rental and condominium housing within the study's DSAs. Names and addresses of real estate companies were secured through fieldwork, public records, and the Internet. Of the 104 multi-unit housing properties identified within the DSAs, surveys were mailed to 40 condominium developers and 40 rental owners. Of these 80 mailed surveys, 56 were not returned, 10 were returned unopened, and 14 were completed and returned. This represents a response rate of 17.5%.

For residents, a 38-question survey was administered to residents of multi-unit housing within the study's DSAs. Housing properties included with this study were the source for resident participants. If a DSA did not have surveyed multi-unit housing or if a property address scheme could not be ascertained, they were not represented in the survey. Unit addresses were secured from fieldwork, public records, and the Internet. Envelopes with a cover letter and survey were mailed to "Current Resident" at each identified address. Residents were given the option of completing the survey electronically on-line or via the copy in their envelope. Of the 2,154 surveys sent, 1,455 (67.5%) were not completed, 321 (14.9%) were returned unopened (undeliverable addresses or vacant units), and 378 (17.5%) were completed and received. If the returned/unopened envelopes are deducted from the total number sent, the survey enjoyed a very good 20.6% response rate.

Desirability (Demand) Paradigm

Since the Downtown Study Areas (DSAs) within this report vary greatly in terms of housing product, land area, demographics, redevelopment progress, and physical setting and since there are no specific project sites to analyze, the use of a traditional demand approach will not produce worthwhile results for this study. Rather, a more creative and flexible method is needed for understanding multi-unit housing in the evolving and differing Michigan downtowns.

An effective methodology must recognize that the term "demand" in real estate is not "need", but rather "motivated desire". We are studying people who have some degree of choice. Choice implies the voluntary selection of an item perceived to be the best or most desirable. In housing, a person must perceive a new living arrangement as being so superior or desirable to their existing one that they will uproot their household and expend significant funds to secure it. Moving a household is a major event, and it is not done without considerable contemplation. In addition to strong desire, people must operate within their financial means. It is human nature to desire things that we cannot afford.

If we accept the premise that demand is "motivated desire", then *someone* must desire *something(s)* sufficiently to consummate a real estate transaction and move. This paradigm forms the basis for the demand methodology in this study.

C. STUDY FORMAT

This study is comprised of four major sections:

- Executive Summary (Volume 1; Section I): In the *Executive Summary*, a synopsis of the salient points of the study is provided. This section is for readers who prefer a brief, concise overview of the study's primary findings.
- Aggregate Downtown Study Area Analyses (Volume 1; Section III): In *Aggregate Analyses*, 17 Downtown Study Areas are examined as a collective group with respect to demographics, housing supply, attitudinal surveys, and housing demand. This section is for readers who seek comparative results.
- Conclusions & Recommendations (Volume 1; Section IV): In *Conclusions and Recommendations*, the findings, results, and observations from Sections III and VI are forged into concluding remarks and recommended actions. This section is for readers who desire summary explanations and future strategies.
- Individual Downtown Study Area Analyses (Volume 2; Section VI): In *Individual Analyses*, each of the 18 Downtown Study Areas has an introductory overview followed by an examination of select demographics and a field survey of multi-unit housing. This section is for readers who are interested in specific Downtown Study Areas.

D. TERMINOLOGY

Throughout this study, certain terms are used whose definitions may not be readily apparent. In an effort to assist the reader, we have compiled a list of these terms and provided a brief definition for each:

- Downtown Study Area (DSA): The geographic zone of a city that was selected for study. Its boundary encompasses what is considered the city's downtown or Central Business District. Each city in the study has one defined area, except for Saginaw, which has two (north and south).
- Downtown Multi-Unit Housing Property: A predominately residential development with four or more dwelling units on one DSA site that was built or substantially renovated since 1970. Occupants are ambulatory, living independently, and paying 100% of their housing costs (no subsidies). Dwelling units are rented or owned. This represents the housing product that was field surveyed, and is the focus of this study. Assisted-living facilities, nursing homes, housing built exclusively for students, duplexes, triplexes, single-family homes, and subsidized housing were excluded.

- Subsidized Housing: Residential properties that are receiving financial assistance and/or whose residents are receiving financial assistance from local, state and/or federal housing agencies. These properties have been excluded from this study.
- Claritas, Inc. Prizm NE Lifestages: See Addendum A of this study.
- Daytime Population: The number of people who *work* in a particular geographic area on a regular basis.
- Crime Risk Indices: A risk index value of 100 for a particular crime in a particular location means that the probability of risk is consistent with the average probability of that risk on a nationally level. For example, if the personal crime index for Ann Arbor is 50, then the risk of personal crimes occurring there is half the national average. If the index is 200, then the chance of occurrence is twice as great as the national average. Values below 100 are considered favorable.
- Net Rent: The rent amount charged excluding all utilities except water, sewer, and trash removal. For this study, net rents are adjusted from gross rents by using the 2007 Department of Housing and Urban Development's Michigan Regional Utility Allowances. It is easier to compare net rents between properties, since they are adjusted to include the same services.
- Collected Rent: The rent amount quoted on the phone and collected by management without any adjustments for utilities or services. It is more difficult to compare collected rents between properties, since they are not adjusted to include the same services.
- Active Condominium Property: A "for-sale" development that is still selling initial units (those that have never been sold before). An active project-based marketing program is usually still in force.
- Established Condominium Property: A "for-sale" development that has sold all initial units (property is sold out). Individual owners are reselling their units, not a developer.
- Rental Property Performance: For the purpose of this report, a *good* performing rental property has an occupancy rate of 95% or higher, while a *marginally* performing property has a rate of less than 95%.
- Condominium Property Performance: For the purpose of this report, a *good* performing condominium property has a sales rate of 0.8 units per month or higher, while a *marginally* performing property has a monthly sales rate of less than 0.8 units. This was set after an aggregate review of all properties.

- Downtown Housing User Households (DHUH): Households that meet the study's profile for downtown housing users. This profile is defined by four Claritas, Inc. Prizm NE Lifestage groups (Y-1, Y-2, M-1, and M-2). See Addendum A for more details.
- Current Downtown Housing User Household: A household that meets the downtown housing user profile, and is expected to live within a downtown in 2007.
- Potential Downtown Housing User Household: A household that meets the downtown housing user profile, and is expected to live outside of a downtown, but within the same city in 2007.
- Available Downtown Housing User Households: All households that meet the downtown housing user profile, and are expected to live within a city in 2007 (current + potential DHUHs combined).
- Desired Qualities of Living: The attributes that downtown housing user households (both current and potential) use to judge the desirability of living in a particular downtown. Of the 50 identified qualities, 30 relate to the housing property itself, and 20 relate to the environment or neighborhood in which it is located.
- Study Cut-off Date: The date that all field research was concluded. For this study, July 31, 2007 was the cut-off date. Any downtown housing activities occurring after this date would not be included in this study.

E. SOURCES

VWB Research uses various sources of information to gather and confirm data in this study. These sources, which are cited throughout this report, include the following:

- Michigan State Housing Development Authority (MSHDA)
- The 1990 and 2000 United States Census
- Claritas, Inc.
- Applied Geographic Solutions
- U.S. Department of Commerce
- Department of Labor, Bureau of Labor Statistics
- Management for each property included in the field survey
- Local city housing, planning, and building officials
- Local chambers of commerce
- Local Downtown Development Authority officials
- Michigan-based developers/owners of downtown multi-unit housing

- Michigan downtown housing residents living in multi-unit properties
- HISTA Data (household income by household size, tenure, and age of head of household) by Ribbon Demographics

F. REPORT LIMITATIONS

The intent of this report is to collect and analyze significant levels of downtown housing data. VWB Research relies on a variety of data sources to generate this report (see Section E above). These data sources are not always verifiable; however, VWB Research makes a concerted effort to assure accuracy. While this is not always possible, we believe that our efforts provide an acceptable standard margin of error. VWB Research is not responsible for errors or omissions in the data provided by other sources.

It *is not* the intent of this report to establish the specific housing needs (either current or future) of each DSA. This study is limited to the investigation of households living in modern/modernized, unsubsidized, multi-unit housing properties in Michigan's major downtowns (outside of Detroit). The questions of who is being attracted to this type of downtown living and for what reasons (both housing and non-housing) form the study's focus and purpose. We are not creating future housing road maps for each DSA. This study is limited to a broad-brush assessment of a specific type of Michigan downtown living.

We have no present or prospective interest in any of the properties included in this report, and we have no personal interest or bias with respect to the parties involved. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or use of this study.

Any reproduction or duplication of this study without the expressed approval of the Michigan State Housing Development Authority or VWB Research is strictly prohibited.